

THE  
GOOD  
ECONOMY

# UK SOCIAL HOUSING

Building a Sector Standard Approach for ESG Reporting

WHITE PAPER | May 2020



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# FOREWORD

**The idea behind this White Paper was born when we attended a meeting with a large UK institutional investor in 2019. The conversation turned to the rapidly growing interest in ESG and the way in which ESG factors would likely form a more fundamental role in the credit process underpinning future investment decisions. Indeed, a major UK pension fund investor recently described to us how ESG considerations are becoming as central to their credit process as a company's balance sheet or profit and loss profile.**

Conversations like this, as well as the various ESG questionnaires being sent to housing associations from investors convinced us that momentum was gathering. This demands a more proactive response from the social housing sector, which to date has relied on a presumption that it ticks ESG boxes but with little structure or consistent reporting to substantiate this.

Debt investment in the sector stands at almost £80bn and growing. We are at the early stages of what may be a wave of equity investment in affordable housing, which along with public sector funding will play a vital role in developing much needed new housing as well as the investment required to improve building safety and deliver the decarbonisation agenda. The UK social housing sector has a strong story to tell in relation to both ESG and Impact. The sector also has a history of collaboration and co-creating standards and metrics which sets a good precedent for this initiative. The aim of this White Paper is to seek to establish a consistent and broadly accepted sector-wide approach for ESG reporting which will support and increase private sector investment in this vitally important sector for UK society and economy.

During the process of finalising this paper, the COVID-19 emergency has come to dominate all aspects of business, political and household life. The UK economy and individual businesses and sectors face a generational challenge in moving through and beyond the consequences of the lockdown period and many will not survive. We can however hope that from challenge, opportunity emerges.

The UK social housing sector has moved quickly and efficiently to keep delivering in challenging times, mobilising to support thousands of vulnerable people when it was most needed. Lockdown has reinforced how important it is for people to have a good home at a price they can afford, and the sector is well placed to help the country recover from the impact of the pandemic.

Many commentators are already pointing to positive behavioural changes in the way that families, communities, businesses and investors might operate in future as a result of COVID-19. We believe that the need for sustainability, resilience and the importance of Environmental, Social and Governance considerations in investment decisions will in fact be strengthened by the current experience. We are pleased to proceed with the publication of this report and look forward to the ensuing engagement and consultation process.

We would like to thank all of the organisations and individuals who have committed the time and financial support to bring this project to fruition. Our thanks also to The Good Economy team for their excellent leadership role in facilitating and delivering the project. We also thank Ritterwald for sharing the environmental and social criteria they developed for affordable housing providers. This formed a starting point for this approach. We hope that the publication of this White Paper and the forthcoming consultation process will draw further input and involvement from the broader sector and provide a major step forward for ESG reporting in UK social housing.

**Susan Hickey**  
**Phil Jenkins**



# EXECUTIVE SUMMARY

## CONTEXT

**Housing associations' social purpose and impact is significant. The need to scale up the supply of new genuinely affordable homes is clear. Investor interest is strong and growing. However, there is an increasing need for the UK social housing sector to clearly highlight and report on its strong Environmental, Social and Governance (ESG) performance.**

By establishing a credible, consistent, and comparable set of ESG criteria, the sector can deliver an approach to ESG reporting which can be adopted by key stakeholders, including lenders, investors, regulatory bodies and government.

This report marks a significant step towards achieving that goal. Following a series of workshops and stakeholder perspectives gathered from lenders and investors, we present a White Paper and propose sector-standard ESG criteria and metrics for discussion and consultation. The proposed 10 themes and 45 criteria were developed based on a review of existing ESG investor questionnaires, workshops with subject matter experts from partner investors and housing associations and wider consultation, including with Ritterwald, a German consultancy that has developed a Certified Sustainable Housing Label. We also suggest a framework for further development of an impact reporting approach.

Core principles of developing this ESG reporting approach were, first, where possible, to use criteria that are already being measured and recorded by housing associations including those linked to regulatory standards; second, the criteria should be possible for any size housing organisation to report on; and third, only focus on questions and criteria that are important and seen as relevant, meaningful and capable of being answered.

## AIMS AND PARTICIPANTS

Ultimately, the project aims to sustain and increase capital flows into and across the UK social housing sector against a backdrop of significant changes in the policy and investment environment.

The project was initiated by Peabody, one of the UK's oldest and largest housing associations and Centrus, a corporate finance firm which specialises in essential service industries and has a market leading presence in providing advice to and raising capital for the social housing sector in the UK and

Ireland. Peabody and Centrus brought together a working group to develop the proposed approach. This includes housing associations (Clarion, Optivo, and Sovereign); Investors (Insight and M&G); organisations concerned with growing the impact investment marketplace (Big Society Capital; Impact Investing Institute); and service providers active in the sector (Savills and Trowers & Hamblins). The Good Economy, a specialist impact advisory firm, led the process of researching and developing the ESG criteria using a participatory, stakeholder-led process and produced this White Paper.

## WHITE PAPER SUMMARY

Following the introduction, the paper is divided into three parts:

**Part one describes the market context and social need for affordable housing.** It examines the crisis in the supply of genuinely affordable homes in the UK. Housing associations have a critical role to play in meeting the need for new good quality, sustainable, affordable homes. The report examines the role of housing associations in the context of the Sustainable Development Goals (SDGs). "Access to adequate, safe and affordable housing" is a core target for SDG 11 Sustainable Cities and Communities. But housing is not just about "bricks and mortar". Having a decent, affordable home is an important determinant of people's health and wellbeing (SDG 3), has a positive knock-on effect on children's education (SDG 4), can help people into decent work (SDG 8) and can provide a route out of poverty (SDG 1). The social housing sector can also help reduce energy consumption and tackle climate change (SDG 7 and 13). The report also introduces the Impact Management Project's approach to analysing impact that is increasingly being used by enterprises and investors.

**Part two examines how private investment can complement public investment to address the UK's affordable housing challenges.** Private debt finance has played a longstanding and important role in the delivery of new social housing, with drawn debt levels currently standing at almost £80 billion. The UK social housing sector has become a firmly established asset class which is of increasing interest to a wide range of UK and international institutional investors, including asset managers, pension funds and insurance companies. The social housing sector is also witnessing the entry of new equity funds bringing new funding models to the sector. Affordable housing is well suited to pension fund and insurance investment with its long-dated, index-linked returns, underpinned by government through the social security system and secured by property. Social and affordable housing is an investment opportunity that can deliver both stable financial returns and has strong ESG and impact credentials.



**Part three presents the ESG reporting approach.** It proposes 10 themes and 45 criteria for ESG reporting by housing associations. These are qualitative and quantitative and are identified as core and secondary requirements to demonstrate strong ESG performance. The criteria are also aligned to international frameworks and standards including the SDGs, Global Reporting Initiative, SASB and ICMA Bond Principles.

The ten core themes are:

- Affordability
- Building safety
- Resident voice
- Resident support
- Placemaking
- Staff wellbeing
- Climate change
- Ecology
- Board and trustees
- Systems and risk management

The final section of the report proposes next steps as to how to transfer the further development of a standard approach to ESG reporting to a sector body. Building on the sector's collaborative track record, we suggest that this could be led in a similar way to the Housing Statement of Recommended Practice (SORP) for financial accounting standards and reporting, with relevant multidisciplinary membership and similar secretariat support.

The development of this ESG approach has been characterised by a positive market response and a high level of engagement from both housing associations and investors – from traditional bank lenders to asset managers looking to participate in the UK social housing sector. All market participants see the timeliness and usefulness of having a widely accepted sector-standard approach to ESG reporting.

These are documents which provide a draft approach for all housing associations to consider reporting on their ESG performance in a credible, consistent, and comparable way. The project is now entering a phase of wider consultation and discussion about the longer-term governance arrangements. We welcome your feedback and input. Further details of the consultation process can be found in the next section and on the website: [www.ESGsocialhousing.co.uk](http://www.ESGsocialhousing.co.uk).

## THE SOCIAL HOUSING SECTOR HAS A TRACK RECORD OF MEASURING ITS SOCIAL VALUE

Measuring social value – or the non-financial impacts – of the social housing sector has gained increasing attention over the past five years. HACT, an industry-focused think/do tank established by the housing association sector, has played a leading role in social value measurement in the sector. HACT's Wellbeing Valuation Approach is one of the most widely used approaches. Others approaches include the National Housing Federation's Local Economic Impact Calculator, the Sector Scorecard and Social Return on Investment (SROI). Several housing associations, such as Hyde and Peabody, have published in-depth social and economic impact assessments. In January 2020, HACT established the UK Social Value in Housing Taskforce to take stock of where the sector has come to with regard to social value measurement and how to further develop common approaches. This ESG reporting approach complements the detailed social valuation and impact assessment work being led by HACT and others.

# INTRODUCTION

## BACKGROUND

**The social housing sector needs to sustain and increase private capital flows to meet the urgent need for more high quality, affordable housing and improve the quality and environmental sustainability of existing stock. However, for the social housing sector to deliver on its capacity to help solve the housing crisis, it is vital that this capital is aligned to both the financing needs of the sector and the delivery of positive social and environmental outcomes.**

Today, most financial institutions are assessing the Environmental, Social and Governance (ESG) performance of their investments in affordable housing. This is in part driven by the new UK Stewardship Code, launched in October 2019, which requires all signatories, including asset owners and asset managers, to take ESG factors, including climate change, into account across all asset classes when making investment decisions.

More recently new real estate and infrastructure fund investors have entered the market, some of which are committed to 'impact investing' strategies, requiring them to demonstrate how their funds deliver both financial returns and net positive environmental and social impact.

There is currently no consistent approach to assessing the ESG and impact performance of investments in social housing, which includes regulated social and Affordable rent as well as Shared Ownership homes. The absence of any sector standard ESG reporting approach is problematic for the following reasons:

- 1** It puts increased demands on housing associations to complete ESG questionnaires, which often ask different questions. These are often drawn from broader corporate ESG questionnaires – many of which are not relevant to housing associations and therefore create an information burden.
- 2** It fuels a lack of clarity for housing association senior management and boards, which are keen to act as good corporate citizens, but are unsure how best to navigate this area and provide lenders and investors with the information they need.
- 3** Failure to meet investor demands for ESG reporting could mean the social housing sector will not be able to attract the capital flows it requires and investors will not be able to compare and allocate capital in a way which drives ESG standards up.

This project was launched in response to this market need.

## OBJECTIVES

This White Paper considers and presents an approach to reporting on ESG performance for regulated social housing providers in a credible, consistent and comparable way that can be used both by investors and housing associations. It also aims to lay the foundations for an approach to impact reporting for investors pursuing an impact investing strategy.

The objectives of the project are:

- To sustain and increase capital flows into the UK social housing sector against a backdrop of significant changes in the policy and investment environment.
- To develop sector approaches to measure, manage and report on ESG factors and impact performance.
- To create the basis for the development of ESG reporting standards and disclosure guidelines for the social housing sector that all market participants can use to account for positive social and environmental impacts.

The UK social housing sector has strong social values and a tradition of building financially strong business models driven by a social purpose. With increasing mainstream investor interest in the ESG and impact investing opportunities in the social housing sector, the working group believe it is important that the integrity of the sector and its social purpose remains central. This is particularly important at a time when all market participants need to focus on tackling the affordability crisis and respond to major issues such as building safety and de-carbonisation.

In the long term, the working group aims to play a leadership role in developing a transparent and practical approach to ESG reporting that would benefit the wider market and could form the basis for a standardised approach to ESG and impact reporting across the sector over time.

We are pleased and encouraged by the positive market response and high level of engagement this initiative has received both from housing associations and the investor market – from traditional bank lenders to asset managers looking to participate in this sector. All market participants see the timeliness and usefulness of having a widely accepted sector-standard approach to ESG reporting.

## BENEFITS FROM THE PROJECT

Key expected benefits from this project include:

- Build consensus on how to measure and report on ESG performance in the social housing sector focused on questions which are relevant, meaningful and capable of being answered.
- Reduce the ESG reporting information burden on housing associations.
- Attract increased capital flows to social housing which are well-aligned to the sector's needs in terms of its financial objectives as well as its social and environmental objectives.
- Provide the impetus for establishing a social housing sector body to lead on the further development, provision and adoption of a standard and associated guidance on ESG reporting for the social housing sector.

## REPORT OUTLINE

The paper is structured into three parts:

- Part one provides an overview of the current housing crisis and important role of housing associations in meeting the social need for affordable, quality housing.
- Part two examines how private investment can complement public investment to address the UK's affordable housing challenges.
- Part three presents the ESG reporting approach and proposes next steps for developing long-term governance arrangements.

## WIDER CONSULTATION

We are publishing this White Paper as a basis for wider market engagement and consultation on both the proposed ESG reporting criteria and the appropriate long-term governance arrangements for the further development, provision and adoption of a sector-standard ESG reporting approach.

The initial draft of the ESG performance criteria was developed with input from subject matter experts from within the working group. Over the next two months, there will be a period of sector-wide consultation, before a first version of the recommended ESG Reporting Approach is published in Summer 2020. The feedback process is designed to be transparent and provide space for all housing providers, investors and other stakeholders (e.g. residents groups) to input:

### Written Feedback

Direct written feedback on the approach ESG reporting including ESG criteria can be submitted on the working group's website [www.ESGsocialhousing.co.uk](http://www.ESGsocialhousing.co.uk) until 15 June 2020. This feedback will be reviewed and collated and all written responses will be published unless confidentiality is requested.

### Oral Feedback

If you would like to discuss specific issues or ideas regarding the ESG reporting approach including the ESG criteria, please get in touch via the working group's website and we will find a time to speak to you.

### Group Consultation events

All written and oral feedback will be collated and used to lead the discussions at a series of group consultation events in June (details to be published on the website). At the end of the consultation a feedback statement will be issued summarising the feedback and what changes to the ESG reporting approach including ESG criteria have been made as a result. All versions of the ESG criteria will be shared via the working group's website [www.ESGsocialhousing.co.uk](http://www.ESGsocialhousing.co.uk).

**We are publishing this White Paper as a basis for wider market engagement and consultation on both the proposed ESG reporting criteria and the appropriate long-term governance arrangements for the further development, provision and adoption of a sector-standard ESG reporting approach.**

# 1. THE MARKET CONTEXT

## THE UK IS IN THE MIDST OF A HOUSING CRISIS

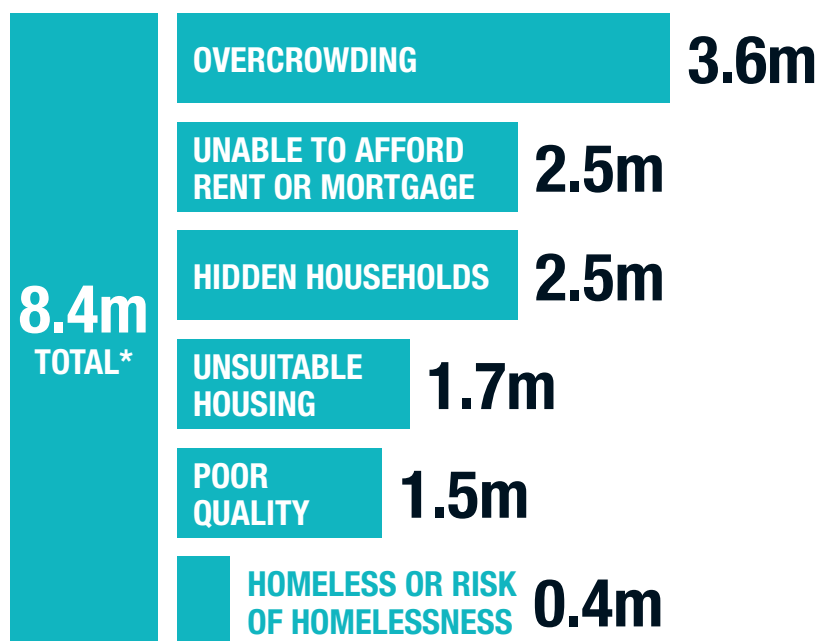
**According to the National Housing Federation, this is affecting more than 8 million people, 1 in every 7 people.<sup>1</sup>**

The effects of the housing crisis are well-documented. Millions of people are living in substandard or overcrowded conditions. Over one million people are stuck on local authority housing waiting lists, some for more than a decade.<sup>2</sup> House prices and rental costs have become unaffordable for many, such that home ownership rates have declined significantly – from 43% for those age 27 in the 1970s to 25% for those born in the late 1980s.<sup>3</sup> Many young people can't afford to leave home – twenty years ago, a quarter of those aged 20 to 34 years of

age lived with a parent or guardian, compared to more than a third in 2017/18.<sup>4</sup> The UK has also witnessed a sharp increase in homelessness and rough sleeping.<sup>5</sup> At the same time we are building fewer homes than in many periods in the past.

Having a safe, decent, affordable home is a key determinant of people's health and wellbeing. The state of the housing market also has a socio-economic effect. Housing is a household's single most important financial asset and often the largest monthly expenditure item. Hence, the state of a housing market has a profound impact on the distribution of wealth in a country. Homeowners may profit handsomely from house price rises, while those on low incomes remain locked out of home ownership or affording a decent home to live.

Chart 1: Breakdown of housing situation (2019)



\*People may experience more than one of these problems with their home, therefore the totals of each problem cannot be directly combined to create the overall total.

Source: National Housing Federation (NHF), <https://www.housing.org.uk/press/press-releases/1-in-7-people-in-england-directly-hit-by-the-housing-crisis/>, How many people need a social rented home?, September 2019

1. National Housing Federation (NHF), How many people need a social rented home?, September 2019.  
 2. MHCLG, Local authority housing statistics: Year ending March 2018, England, 24 January 2019.  
 3. The decline of home ownership among young adults, The Institute for Fiscal Studies, 2018.  
 4. Joseph Rowntree Foundation, Report on UK Poverty 2019/20.  
 5. Currently, 140,000 families - including 200,000 children - live in temporary accommodation - or in hostels or B&Bs. An estimated 5,000-8,000 individuals sleep rough - figures which have risen substantially in the past decade.  
 Sources: Crisis, Shelter and Office for National Statistics (ONS), Combined Homelessness and Information Network (CHAIN).





## MULTIPLE FACTORS HAVE CAUSED THE HOUSING CRISIS

There are multiple factors underlying the state of the wider housing market. There is no simple, single housing market. Instead there are multiple housing markets defined by location, property type, tenure, and price. Equally, there is no single explanation for the housing crisis.

Research and evidence point to multiple factors, including:<sup>6</sup>

- **Population growth** – rapid population growth and growth in the number of households puts pressure on demand for housing, particularly in cities experiencing high rates of urbanisation. People living longer also increases housing demand.
- **Financial markets** – the financial sector has a role to play in the state of the housing market. Bank lending policies and mortgage rates play a role in price inflation and how easy it is for first time buyers to buy a home. The Buy-to-Let market has also increased competition for home ownership.
- **Low wage growth** – UK average house prices have risen much faster than wages, by over 260% in real terms since 1997 compared to 68% for wages.<sup>7</sup> On average, full-time workers paid nearly 8 times their annual salary to purchase a home in 2018 compared to 3.5 times in the early 1990s.<sup>8</sup> Today, around 14 million people in the UK live in poverty. The median household disposable income is £29,400. Around 56% of people in poverty are in a working family, compared with 39% twenty years ago.<sup>9</sup> Many people on low incomes are unable to afford a decent standard of living, including a decent home.<sup>10</sup>

- **Lack of government investment** – government commitment and funding both for building new social housing and for housing benefits has declined over the last decades. Government has focused more on low-cost home ownership and Affordable rent, than investing in social rent housing for those most in need. Over 3.5 million people currently receive housing benefit in the UK. However, housing benefit has tended to cover a decreasing proportion of housing costs, such that even social rent homes have become less affordable.<sup>11</sup>

- **Land** – the price of land as well as ownership and access to land is also a key factor at the heart of the housing crisis. The cost of land, the value of which has increased fivefold since 1995, pushes up the cost of building new homes.<sup>12</sup> Increasing construction and labour costs also increase the cost of house building.

Given the housing crisis and its effects on people's quality of life, there has been renewed concern over the provision of genuinely affordable housing to those in most social need. There is also an increasing recognition of the importance of housing associations and local authorities in helping to solve the housing crisis and meet the need for quality, affordable homes for everyone.

6. Understanding Local Housing Markets, Advice and Guidance for Local Authorities, A Report for the Local Government Association, Residential Analysts, June 2019; BBC Housing Review, March 2020.

7. <https://www.ogilvyandsneyd.co.uk/the-astonishing-relationship-between-wages-and-property-prices/>

8. ONS, Housing affordability in England and Wales: 2018.

9. JRF Poverty Report, 2019.

10. Office of National Statistics, Annual Survey for Hours and Earnings (ASHE) 2019.

11. Resolution Foundation, Housing Policy: <https://www.resolutionfoundation.org/major-programme/housing-outlook/housing-policy/?section=Housing%20benefit%20coverage%20by%20tenure>

12. NEF, Building the Social Homes We Need – Solving the Land And Capacity Challenges, November 2019.

## THE SOCIAL HOUSING SECTOR HAS A VITAL ROLE TO PLAY IN HELPING TO MEET HOUSING NEED

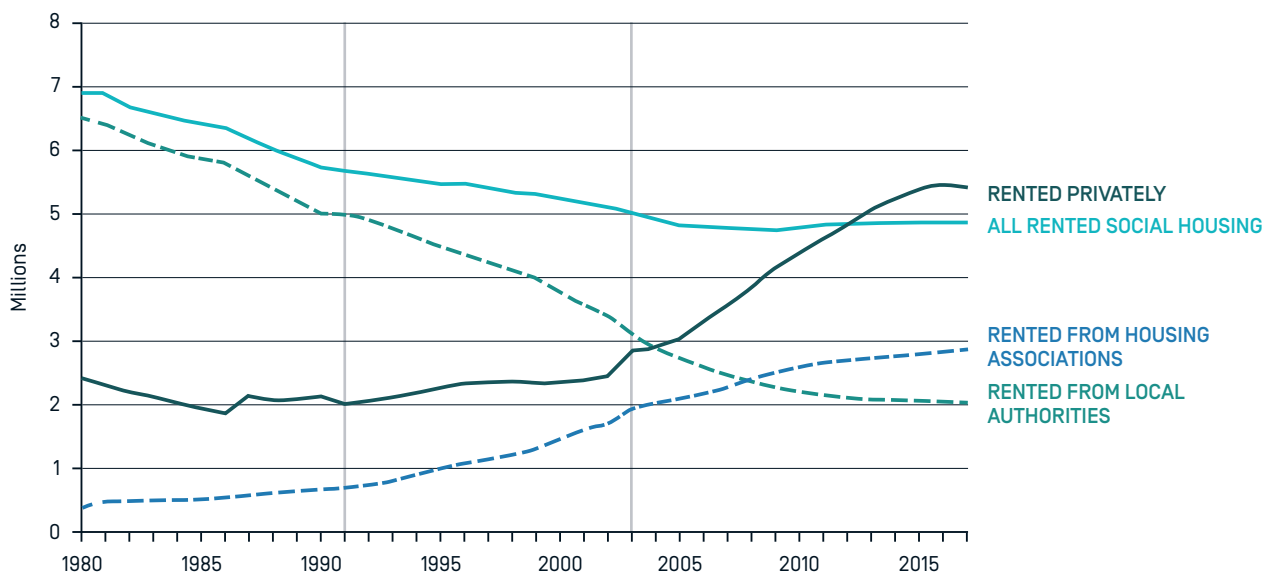
**Regulated housing providers play a critical role in meeting housing need, particularly for vulnerable people and those who cannot afford to rent or buy in the private market.**

There are two types of regulated provider – local authorities and private registered providers (PRPs), which include not-for-profit housing associations, for-profit providers, housing cooperatives, community land trusts and specialist charities. PRPs total more than 1600 organisations, the majority of which are not-for-profit housing associations. Most PRPs have fewer than 250 homes. However, there are 272 providers (also known as large PRPs) which manage at least 1000 or more units of social housing representing more than 96% of PRP stock.<sup>13</sup>

As of April 2018, there were about 5 million homes in the social sector in the UK, of which 4.13 million homes were in England. Of the 5 million homes, about 2 million homes are let, owned and managed by a local authority and 3 million are let, owned or managed by PRPs.<sup>14</sup>

The social housing sector has witnessed enormous changes in the last few decades. This includes the rise of housing associations as the largest providers of social housing, increasing consolidation among housing associations as well as the more recent entry of for-profit providers. The housing sector has also witnessed the rise of private renting with the number of households in the Private Rental Sector (PRS) increasing from 3.6 million in 2007 to 5.4 million in 2017, an increase of 52%.<sup>15</sup> Local authorities are also re-entering the social housing market following the government scrapping of the borrowing cap in 2018 in a bid to boost council housebuilding.

Chart 2: The rental sector in Great Britain by tenure, 1980-2017



Data for earlier years are less reliable and definitions may not be consistent throughout the series (change in methodology marked by grey vertical lines).

Source: Ministry of Housing, Communities & Local Government; Live tables on dwelling stock (including vacants); Table 102: by tenure, Great Britain (historical series)

13. Regulator of Social Housing, Private registered provider social housing stock in England – sector characteristics and stock movement, 2018-2019, October 2019. <https://www.gov.uk/government/statistics/statistical-data-return-2018-to-2019>

14. ONS, page 15.

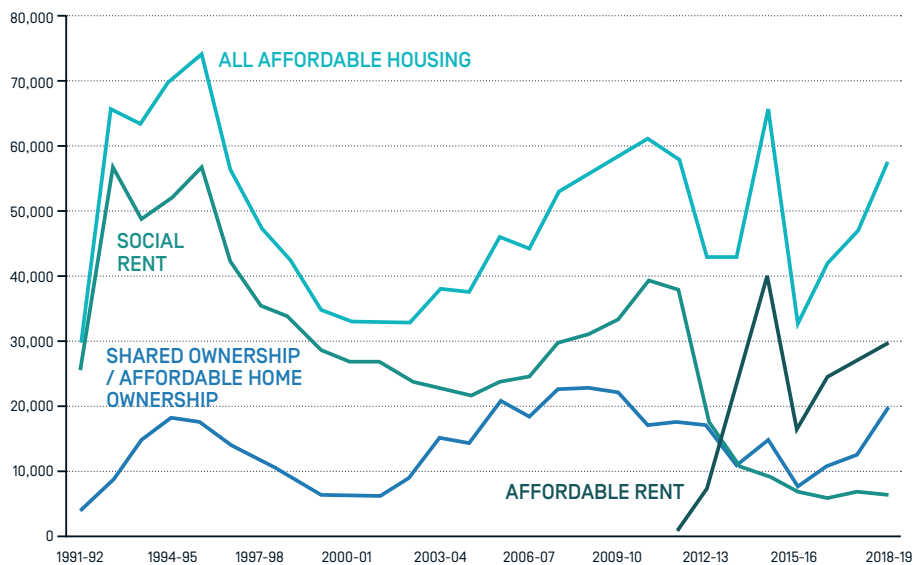
15. ONS, UK private rented sector: 2018: <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukprivaterentedsector/2018>

Homes within the regulated social housing sector are provided at sub-market and discounted rates through a range of tenure types:<sup>16</sup>

- **Social rent housing** – usually rented at around 50% of local market rent, prioritised by need identified by local authorities.
- **Affordable rent product** – rents are typically set at 65-80% of market rent and allocated by need. The Regulator for Social Housing defines both social rent and Affordable rent setting and places limits on annual rent increases.
- **Shared Ownership** – housing that residents can part buy and part rent as a means of providing a first step on the housing ladder.

As seen in the graph below, Affordable Housing (comprising Shared Ownership and Affordable rent) has increased in recent years with social rent decreasing. Public housing investment in England continues to increase but promoting the non-regulated affordable private market and home ownership are still the government’s main priorities. Analysis of affordability based on income distributions shows that a large number of households cannot afford the private market on any reasonable norms. Many households require social rent housing which is in increasingly short supply.

**Chart 3: Trends in the supply of affordable housing completions by tenure, England 1991-92 – 2018-19**



Note: All Affordable Housing also includes London Affordable rent, intermediate rent and unknown tenure.

Source: MHCLG, Affordable Housing Supply: April 2018 to March 2019 England, 20 November 2019

16. Shelter, What is 'affordable housing'?. 10 August 2015 <https://blog.shelter.org.uk/2015/08/what-is-affordable-housing/>  
 17. Crisis/NHF, Housing supply requirements across Great Britain: for low-income households and homeless people, Professor Glen Bramley, November 2018

## THERE IS AN URGENT NEED TO INCREASE THE SUPPLY OF QUALITY, AFFORDABLE HOMES FOR THOSE ON LOW INCOMES

There is an urgent need for more homes that provide people on low incomes with security, decent living conditions and affordability across all tenure types. In particular there is a need for more social rented homes. The large-scale cuts to government support of social rent combined with the introduction of Affordable rent has inevitably impacted on the supply of genuinely affordable new homes.

Yet many housing associations have expanded and operated more commercially and developed cross-subsidy models to keep delivering social housing. Housing associations build thousands of new homes every year. In England, in 2018/19, they built more than 45,000 homes, nearly a third of all new homes in England. This includes more than 5,000 homes for social rent, more than 19,000 homes for Affordable rent, and more than 14,000 homes for Shared Ownership.

A study by Crisis and the NHF estimates a need to build over 380,000 affordable homes every year for the next fifteen years across Great Britain, of which 100,000 should be social rent.<sup>17</sup>

**Chart 4: New housebuilding requirements in Great Britain based on need**

|               | TOTAL   | SOCIAL RENT | SHARED OWNERSHIP | INTERMEDIATE AFFORDABLE RENT |
|---------------|---------|-------------|------------------|------------------------------|
| England       | 340,000 | 90,000      | 25,000           | 30,000                       |
| Scotland      | 26,000  | 5,500       | 2,500            | 2,000                        |
| Wales         | 14,000  | 4,000       | 1,500            | 1,500                        |
| Great Britain | 380,000 | 100,000     | 29,000           | 33,500                       |

Source: Professor Glen Bramley, Crisis & NHF Housing supply requirements across Great Britain, November 2018

**The amount of capital needed to meet this housing need is estimated at over £10bn a year (NHF).**

## MAJOR INVESTMENT IS NEEDED TO MEET SAFETY STANDARDS AND ZERO CARBON TARGETS

**While the need for new homes is evident, the current social housing stock is also in urgent need of refurbishment to meet new fire safety standards, align with regulatory standards and meet the Future Homes Standards, as well as improve the current stock in order to meet the government’s 2050 net-zero carbon target.**

In February 2019 the UK Committee on Climate Change warned that “UK homes are not fit for the future” and made a series of recommendations including no new homes to be connected to the gas grid from 2025. Retrofitting existing social housing and investing in new home construction with methods that could help meet these recommendations is a major challenge.

Large-scale investment amounting to tens of billions of pounds is needed both to build new quality homes that are genuinely affordable and retrofit existing stock to meet net-zero carbon targets. Public investment is vital, but private investment also has a critical role to play.

Hence, we welcome the growing interest of investors in the UK social housing sector. Ensuring private sector finance meets the needs of the social housing sector requires collaboration and alignment of financial, social and environmental objectives between local authorities, housing associations and private sector funders, as well as developers, underpinned by a supportive government housing policy and public investment strategy.



## THE IMPACT OF HOUSING ASSOCIATIONS

**Affordable housing has multiple positive social and environmental impacts. The majority of investors are looking for investment opportunities with strong ESG credentials. More and more investors, including large-scale asset owners such as pension funds are looking to optimise the social and environmental impacts of their investments.**

The Sustainable Development Goals (SDGs), adopted by all UN member states in 2015, have become a powerful rallying call and set of common global goals that demand investors – along with governments, business and civil society – to do more to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.<sup>18</sup> Achieving the SDGs will require trillions of pounds of additional investment each year in both developing and developed countries.

### Investors are moving beyond ESG towards contributing to the SDGs.

Affordable housing is recognised as a universal social good within the SDGs. “Access to adequate, safe and affordable housing” is a core target for SDG 11 Sustainable Cities and Communities. But housing is not just about “bricks and mortar”.

There is strong evidence, including in the UK, that good housing contributes to other positive outcomes.<sup>19</sup> Having a decent, affordable home is an important determinant of the health and wellbeing of individuals and families (SDG 3), has a positive knock-on effect on children’s education (SDG 4), can help people to get and sustain employment (SDG 8) and can provide a route out of poverty (SDG 1). Housing’s carbon footprint can also be reduced through the right energy efficiency and construction measures (SDGs 7 and 13).

As a result, there is a strong social and environmental impact case for investing in the UK social housing sector. Importantly, housing associations have place-based impacts providing affordable housing in nearly every town and city in the UK. They act as anchor organisations in many poor communities providing not just social infrastructure but also services and community investment that directly benefits their residents and local communities.

Housing associations also have an important role in place shaping – investing in housing and wider regeneration developments that aim to meet local needs and create great places for people not just to live but to enjoy their lives. Hence, housing associations can offer investors, such as local government pension funds, the opportunity to invest in their local communities and respond to the growing demand of the UK public to see their pension investments have a positive impact.<sup>20</sup>

Chart 5: How social housing contributes to the Sustainable Development Goals



Source: The Good Economy

18. National Housing Federation (NHF), How many people need a social rented home?, September 2019.  
 19. MHCLG, Local authority housing statistics: Year ending March 2018, England, 24 January 2019.  
 20. Investing in a Better World: Understanding the UK Public’s Demand for Opportunities to Invest in the Sustainable Development Goals, UKAID, PwC, The Good Economy 2019.

## POSITIVE IMPACT CREATION IS INTRINSIC TO HOUSING ASSOCIATIONS' BUSINESS MODEL

**The UK social housing sector has strong social values and a tradition of building financially strong business models driven by a social purpose.**

Housing associations are non-profit organisations, often registered as charities, that fund their social housebuilding in a number of ways:

- By borrowing commercially from banks, private placements and bond issues.
- Through rental income paid directly by their residents (who pay below market rents), about 60% of whom rely or partially rely on housing benefit or universal credit.
- By building homes for private sector sale or rent and re-investing the profits into social rented homes.
- Directly from central government investment.

Any surpluses housing associations make are re-invested in housing including improving the quality of existing stock and building new, additional homes. This business model means wealth created through housing is retained in local areas or used to cross-subsidise social and affordable housing between neighbouring areas, rather than returned to shareholders nationally and globally.

The reinvestment of surpluses is a fundamental feature of housing associations' business model and one that is well-aligned to the delivery of social housing at scale. Increasing the scale of public and private investment into the social housing sector is vital to housing associations being able to deliver on new affordable housing, including much needed social rent.

### Peabody

Housing associations are mostly non-profit organisations, originally formed by private individuals concerned about local housing provision, such as George Peabody, an American financier who lived in London. He is widely regarded as the father of modern philanthropy but could also be regarded as a founding father of social enterprise and impact investing. He founded what is now Peabody housing association with an initial investment of £150,000 which grew to £500,000 in total. The Trustees stipulated that this should generate a 3% return, with the profits being reinvested into building more social housing in perpetuity. Today, Peabody owns and manages around 66,000 homes and its average rents are almost £500m a year lower than the market. Surpluses are reinvested into maintaining existing homes, building more homes and providing services.

## THE SOCIAL HOUSING SECTOR HAS A TRACK RECORD OF MEASURING ITS SOCIAL VALUE

Measuring social value – or the non-financial impacts – of the social housing sector has gained increasing attention over the past five years. HACT, an industry-focused think/do tank established by the housing association sector, has played a leading role in social value measurement in the sector. HACT's Wellbeing Valuation Approach is one of the most widely used approaches. Other approaches include the National Housing Federation's Local Economic Impact Calculator, the Sector Scorecard and Social Return on Investment (SROI). Several housing associations, such as Hyde and Peabody, have published in-depth social and economic impact assessments.

In January 2020, HACT established the UK Social Value in Housing Taskforce to take stock of where the sector has come to with regard to social value measurement and how to further

develop common approaches. This ESG reporting approach complements the detailed social valuation and impact assessment work being led by HACT and others.

A new approach to analysing impact has been developed by the Impact Management Project (IMP). This a global forum for building consensus on how to measure, manage and report on impact. The IMP has developed a useful way for organisations to describe and assess their impact.<sup>21</sup> The IMP describes impact based on an analysis of five dimensions: who is being impacted, in what way, by how much, the contribution of the organisation to the change in outcomes and the risk of target outcomes not being met. Below we use the IMP approach to highlight some examples of the positive social and environmental outcomes of housing associations.

21. See [www.impactmanagementproject.com](http://www.impactmanagementproject.com)

Chart 6: An example of applying the IMP to a housing association

| DIMENSION  | DEFINITION  | SOCIAL OUTCOMES: RESIDENT QUALITY OF LIFE  | ENVIRONMENTAL OUTCOMES: ENERGY EFFICIENT HOMES   |
|--|---|--|--|
| WHAT impact is the housing association having?                               | The outcome experienced by the stakeholder when engaging with the enterprise                            | <ul style="list-style-type: none"> <li>– Change in physical, mental and economic wellbeing</li> </ul>  | <ul style="list-style-type: none"> <li>– Reduction in home energy consumption</li> </ul>   |
| WHO is experiencing the impact?  | The type of stakeholder experiencing the outcome  | <ul style="list-style-type: none"> <li>– People who are unemployed, on low-incomes or claiming benefits e.g. disability benefit</li> </ul>   | <ul style="list-style-type: none"> <li>– The planet (and current and future generations)</li> </ul>  |
|  | Baseline level of outcome   | <ul style="list-style-type: none"> <li>– Initial disposable income</li> <li>– Baseline wellbeing</li> </ul>  | <ul style="list-style-type: none"> <li>– Baseline emissions data</li> </ul>  |
| HOW MUCH impact is the housing association creating?                         | The scale of the outcome  | <ul style="list-style-type: none"> <li>– The number of residents provided housing by the housing association</li> </ul>  | <ul style="list-style-type: none"> <li>– The number of homes with improved energy efficiency</li> </ul>  |
|  | The depth of the outcome – i.e. the degree of change experienced by the stakeholder versus the baseline | <ul style="list-style-type: none"> <li>– The extent to which residents experience a change in wellbeing following a move into a home</li> <li>– The change in rental costs experienced by residents, benchmarked against PRS and Local Housing Allowance</li> </ul>  | <ul style="list-style-type: none"> <li>– The improvement in EPC rating of the housing associations' portfolio leading to lower carbon emissions</li> </ul> |
|  | Duration – how long does the impact last for?   | <ul style="list-style-type: none"> <li>– Length of leases</li> </ul>   | <ul style="list-style-type: none"> <li>– Length of leases</li> </ul>   |
| How much CONTRIBUTION is the housing association making towards this impact? | The additional outcomes that will be experienced as a result of the actions of the housing association  | <ul style="list-style-type: none"> <li>– The number of residents who move into homes from the social housing waiting lists</li> </ul>  | <ul style="list-style-type: none"> <li>– All improvements to energy efficiency that are beyond the housing associations legal obligations</li> </ul>       |
| What is the RISK of the impact not happening?                                | The indicators of risk that may undermine the delivery of the outcome                                   | Execution Risks: <ul style="list-style-type: none"> <li>– The housing association is unresponsive to resident requests and complaints</li> <li>– The housing association is not well governed and/or financially viable</li> <li>– Poor quality and/or small homes negatively effect resident wellbeing</li> <li>– Rental rates are not genuinely affordable for low-income households in local market contexts</li> </ul> | Execution Risks: <ul style="list-style-type: none"> <li>– Plans to improve EPC rating are not implemented</li> </ul>                                       |

The UK social housing sector has strong social values and a tradition of building financially strong business models driven by a social purpose.

# 2. THE ROLE OF PRIVATE CAPITAL IN SOCIAL AND AFFORDABLE HOUSING

## PRIVATE FINANCE HAS LONG PLAYED A ROLE IN THE UK SOCIAL HOUSING SECTOR

**Private debt finance has played an important role in the delivery of social housing for decades. It enables housing associations to use their no loss on default history, regulated status, strong balance sheets and credit ratings to raise a multiple of their reserves and grants for the management of existing stock and delivery of more homes.**

Drawn debt levels currently stand at £79.4bn against property assets of £164bn.<sup>22</sup> Of total available debt facilities of £101.9bn the majority is bank debt (£60.7bn) with debt from the capital markets on the rise and currently totalling £39bn (see Chart 7). With the decline of government investment combined with the pressure to build more homes in recent years, housing associations have increased borrowing levels and equity investment is becoming more prevalent, albeit the scale of this is still very small.

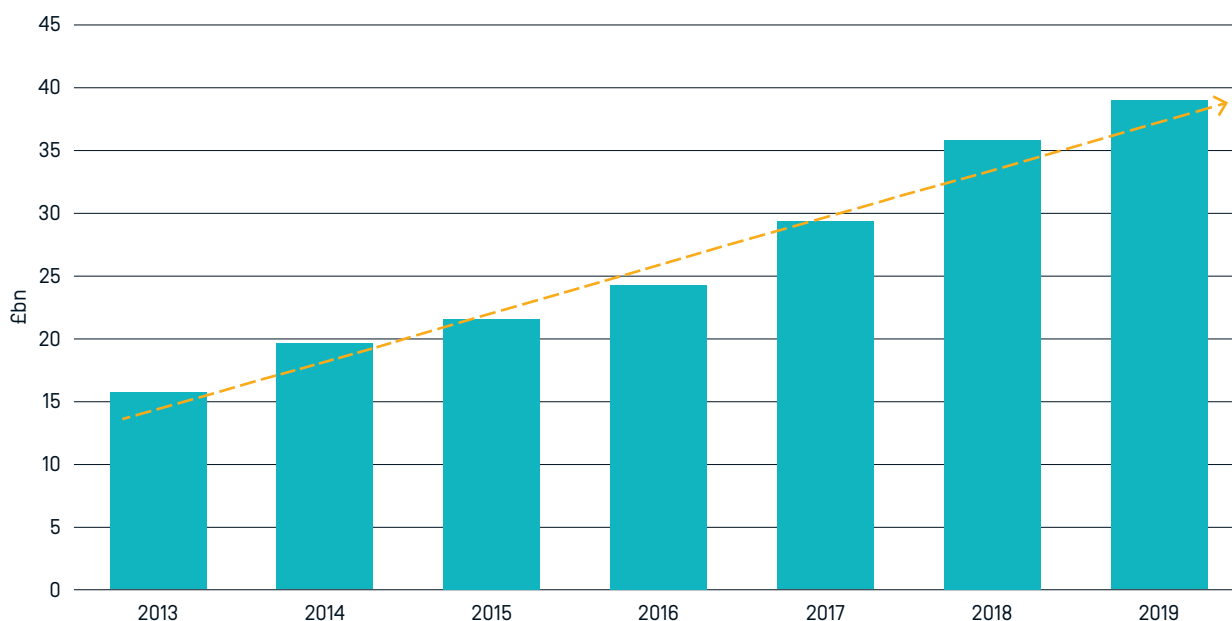
Overall the estimated composition of funding into the social housing sector is approximately 33% government investment, 40% bank debt, 26% capital markets debt and 1% equity.

Housing associations borrow directly from banks, and issue bonds publicly and via private placements in the institutional debt capital markets to raise finance. Some medium and smaller sized housing associations use aggregators such as The Housing Finance Corporation (THFC) to access the institutional market at cost effective rates.

Prior to 2008, housing association private finance was dominated by long term lending from UK banks and building societies. However, the global financial crisis saw banks reducing balance sheet exposures and capital models becoming punitive for the sort of long-term lending traditionally provided to housing associations. From around 2010 onwards, institutional investors were effectively asked to replace this long-term lending.

Since then, social housing has become an established and widely recognised asset class which is of increasing interest to a wide range of UK and international institutional investors, including asset managers, pension funds and insurance companies. Social housing is well suited to pension fund and insurance investment with its long-dated returns, underpinned by government benefit payments and secured by property. Social housing is also an investment opportunity that has strong ESG and impact credentials.

Chart 7: Cumulative investment from the capital markets [2013-2019]



Source: Regulator of Social Housing, Quarterly Surveys  
<https://www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers>

22. Regulator of Social Housing, 2019 Global Accounts of private registered providers, December 2019. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/852013/2019\\_Global\\_accounts\\_of\\_private\\_registered\\_providers.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852013/2019_Global_accounts_of_private_registered_providers.pdf)



## Sustainability-Linked Loans

Several banks are taking an increasingly proactive approach to ESG and in some cases providing incentives to improve environmental and social performance in the form of sustainability-linked loans (SLLs). SLLs are corporate purpose loans whose structure is designed to incentivise borrowers' commitment to meeting key social- and environmental-based performance targets. Under the terms of such loans, a component of the interest rate is dependent upon the borrower meeting specific sustainability indicators that have been agreed with the lender.

This innovative financing mechanism has become increasingly popular in the UK social housing sector in recent years, with several housing associations taking such loans including Optivo, L&Q, Peabody and Clarion. In Peabody's case, the interest rate margin is linked to delivering an agreed number of accredited childcare qualifications under its childcare training programme. For Optivo, L&Q and Clarion, the terms of their respective deals are linked to supporting an agreed number of residents into employment.

To date, £475m of SLL deals have been completed within the UK social housing sector. These deals have come from three banks – BNP Paribas, who offered the sector's first SLL in 2018 and have been the most active financial institution in this space since, as well as Sumitomo Mitsui Banking Corporation (SMBC) and First Abu Dhabi Bank. Lloyds and NatWest have also revealed that they intend to deliver SLLs within the UK housing sector.

Peabody's CFO at the time, Susan Hickey, discussing their SLL, stated: "This loan facility will contribute to our wide-ranging activities including delivering the low-cost homes that are desperately needed". Furthermore, she mentioned "the savings we'll make on interest payments by facilitating affordable childcare will be directly invested into the Peabody Community Foundation."

## RAPIDLY INCREASING CAPITAL FLOWS TO GREEN, SOCIAL AND SUSTAINABLE BONDS OFFERS AN OPPORTUNITY FOR HOUSING ASSOCIATIONS

There has been a significant increase in the issuance of green, social and sustainable bonds globally in the last decade in accordance with the International Capital Market Association's (ICMA) Green, Social and Sustainability Bond Principles. In 2018, Green bond issuance was valued at around \$800 billion, Sustainability bonds reached a level of \$13.9 billion and Social bonds \$11.3 billion. European and Asian institutions have been the largest issuers.

There is a good opportunity for UK housing associations to list their bonds as Social and/or Sustainability bonds and access a larger pool of investors, potentially with positive benefits on pricing. Capital raised through bond issuance can be used to finance the development of new homes and for retrofitting and refurbishment to meet safety and environmental standards.

Listing such bonds requires housing associations to measure and report on their ESG credentials in line with the ICMA Bond Principles. Cross Keys Homes was the first housing association to issue a Green Bond in 2014. In 2020, Clarion became the first housing association in the UK market to issue a Sustainability Bond (see box).

The ESG reporting approach presented in this White Paper has been designed to align with the ICMA Social and Sustainability Bond Principles and can help housing associations meet the reporting standards required by the ICMA.



### Clarion and ESG – the journey so far

Clarion has developed an overarching long-term sustainability strategy. To make progress towards its corporate sustainability ambitions, Clarion wanted to explain its approach to the funding community. To ensure information would be useful and relevant, Clarion will publish a framework reporting on funding activity, including the use of proceeds raised for specific projects of a sustainable nature.

In order to benchmark itself against the market and the housing sector, Clarion decided to undergo an external assessment of not only its Social Housing Finance Framework but its entire approach to sustainability. This led to the Group’s accreditation in November 2019 with Ritterwald’s pan-European Certified Sustainable Housing Label, which considers green and social indicators and is aligned to ICMA Green and Social Bond principles. To give further assurance to institutional investors it then sourced an expert opinion from a sustainability rating agency.

Sustainability credentials were used in the marketing of a 15-year 1.875% bond which Clarion issued in January 2020. The bond proceeds will be used for the development of new build energy efficient affordable homes. It was the first Sustainability Bond from the sector and generated significant investor interest, including overseas accounts who had not previously invested in UK housing associations, many of whom were looking to invest exclusively in sustainability funds.

### THE SECTOR IS WITNESSING THE ENTRY OF MAINLY EQUITY FUNDED FOR-PROFIT HOUSING PROVIDERS

In recent years, the social housing sector has also seen the entrance and rise of for-profit registered providers (FPRPs) such as Sage (90 % owned by Blackstone, the world’s largest private equity investor), L&G, Grainger and British Land, as well as specialist housing funds, such as Funding Affordable Homes (FAH), now part of Cordings Real Estate Group. This has also been linked to the recent inflow of private capital into the market with private equity investors setting up FPRPs in order to access the regulated social and affordable housing sector. Social housing strategies are also being developed by large real estate investment firms, such as CBRE Global Investors, LendLease and M&G, which raise and manage investment from institutional investors, including European pension funds and insurance companies. However, the number of homes owned by for-profit providers is still a very small fraction of the not-for-profit sector (less than 6,000 homes in 2019 compared to 3 million).

Equity funding models have different investment strategies, business models and return expectations. These range from those aiming to acquire and own housing assets over a 20-40 year period and provide liability matching for long-term pension investors seeking returns of circa 5-7% Internal Rate of Return and those willing to take on development risk and finance new build housing seeking returns of circa 10-12%.

To date, the UK social housing market has seen low levels of UK institutional investment compared to Europe.<sup>23</sup> However, as these new funds develop a track record and demonstrate their risk, return and impact credentials, institutional investment, including from UK pension funds, is expected to increase.

23. See Ritterwald’s paper on “Institutional investments in social and affordable housing in Europe”, May 2020 <https://www.ritterwald.de/publications/institutional-investments-in-social-and-affordable-housing-in-europe>

## EQUITY-FUNDING MODELS BRING OPPORTUNITIES, BUT RISKS NEED TO BE MITIGATED

**Equity-funding models bring opportunities, but risks need to be mitigated. Equity models, backed by institutional investors, bring new large-scale sources of capital to the social housing sector, and have a role to play in helping to tackle the housing crisis. There are opportunities for mutually beneficial partnerships between private investors, local authorities, and housing associations.**

Private investors are becoming increasingly prominent as developers and owners of social homes and partnering with housing associations to provide housing management services through long-term leasing arrangements. Such arrangements can effectively enable housing associations to provide more homes without further borrowing. Such funding arrangements can be particularly useful for small and medium-sized housing organisations which have reached the limits of their borrowing capacity.

The entry of institutional investment also has the potential to drive up quality and management standards particularly in the private rented sector, which is dominated by large numbers of small, unregulated landlords as well as within segments of the social housing sector e.g. specialist supported housing. Institutional investors, such as CBRE Global Investors, L&G and M&G, have long track records in real estate development and bring these skills into the social housing sector. Some private investors have a strong focus on sustainability standards and bring a focus on sustainable design and construction methods and how to maximise energy efficiency and minimise carbon emissions.

However, the entry of for-profit providers and equity funders also brings risks. The Regulator for Social Housing has warned that profit-motivated investors may bring in funding models that create systemic risks to the social housing sector. Lease-based funding models have raised particular concerns including the fact that index-linked payments by housing associations may become less affordable over time; that lease structures can leave housing associations bearing most of the financial risk such as voids and repairs; and that for-profit providers may unscrupulously take advantage of more generous local authority rent regimes designed to help house those with additional needs. These are critical risks that must be avoided. All investors in social housing should be expected to adhere to high standards of social responsibility and ensure their funding models do not place partner housing associations or the wider sector at risk.

Ultimately, the motivations underpinning investment into the social and affordable housing sector is critical. It is of fundamental importance that equity funding is aligned with and supportive of creating social value, not just financial value, and that financial returns are fair and do not extract excessive profit from the sector.

We see the approach to ESG measurement and reporting proposed in this White Paper as the first step in creating a sector-standard approach which will help hold all investors and housing providers to account for delivering social and environmental benefits underpinned by good governance.

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## ESG INTEGRATION AND IMPACT INVESTING ARE ON THE RISE

**The world's sustainable investment market is now valued at £22.8 trillion, a 34% increase in two years.<sup>24</sup> ESG integration into investment strategies has grown globally by 69%, between 2016 and 2018. The Investment Association estimate the size of the UK sustainable investment market to be £2 trillion. At least 22% of the total UK asset management industry is now sustainably invested.**

What is distinctive about the rise of ESG compared to previous iterations of responsible investment is that ESG is largely applied through the lens of financial materiality. That is, embedding ESG factors into capital markets is widely regarded to not only contribute to more sustainable markets and better societal and environmental outcomes, but to make financial sense.<sup>25</sup> This idea was put forward, with the term ESG first coined, in a 2005 report entitled 'Who Cares Wins'.<sup>26</sup> The report was the result of a joint initiative convened by the UN Global Compact, the International Finance Corporation (IFC) and the Swiss Government involving institutional investors, asset managers, analysts, government bodies and regulators.

Following the publication of this landmark report, the Principles for Responsible Investment (PRI) was launched the following year at the New York Stock Exchange, with the principles providing a global framework for investors to consider ESG issues. Since its inception 14 years ago, the PRI has grown to contain more than 2,500 signatories from over 60 countries.<sup>28</sup> This huge global growth represents a move towards a critical mass of ESG investing, with the integration of such factors increasingly seen as a part of fiduciary duty. This is reflected in the new UK Stewardship Code 2020 launched by the Financial Reporting Council which requires all signatories, including asset owners and asset managers, to consider ESG factors across all asset classes, including real estate.

Alongside this focus on ESG is the rise of impact investing across the financial markets. Emerging in 2008 in a publication from the Rockefeller Foundation, the term 'impact investing' began primarily as a conversation on how to use capital differently. As with ESG, it is a component of a broader shift towards a more responsible, sustainable and inclusive form of capitalism.

While impact investing started as an investment approach developed by specialist impact investors focused on delivering financial returns alongside positive social and/or environmental impact, it is rapidly entering the mainstream. It is seen as part of a larger movement to shift the cultural mindset of the mainstream financial sector to look beyond profits and prosperity to creating benefits for people and planet. The increasing public recognition of the climate emergency has helped drive this mainstream interest. Impact investments can be made across all asset classes, including corporate debt, private equity and real estate.

Based on the Global Impact Investing Network's (GIIN) Annual Investor Survey, the impact investing market is estimated to have grown from roughly \$25 billion in 2013 to over \$502 billion at the end of 2018. This substantial growth in the scale of the market has been galvanised by increasing discussions around how best to harness the potential of the capital markets to address global challenges.

The launching of the Sustainable Development Goals (SDGs or Global Goals) helped to provide a focus on what needs to be achieved to solve key global issues, and for many Impact Investors have become a unifying context which informs impact objectives and key performance indicators. Yet whilst also helping to provide a focus for efforts, the targets set out by the SDGs revealed a \$2.5 to \$3 trillion financing gap.<sup>26</sup> If such targets are to be achieved, impact investing will have a central role to play in scaling up the mobilisation of private capital towards investment opportunities that aid achievement of the Global Goals.

**“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”**

The UK Stewardship Code 2020, Financial Reporting Council (FRC)

24. Global Sustainable Investment Alliance (GSIA) 2018 Investment Review [http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR\\_Review2018F.pdf](http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf)

25. Forbes, The Remarkable Rise of ESG, July 2018.

26. Ivo Knoepfel, Who Cares Wins: Investing for Long-Term Value, October 2005.

27. Principles for Responsible Investment, 2019.

28. UNCTAD, World Investment Report 2014. Investing in the SDGs: An Action Plan, 2014.



The Spectrum of Capital diagram (see Chart 8) is used to depict the broad range of financial and impact objectives that exist within the investment market. Impact investments range from 'finance-first', delivering competitive financial returns, to 'impact-first', which tolerate higher risk projects or below-market financial returns.

Impact investments in social housing can be made across the spectrum of capital and have a range of financial returns. Those that deliver most impact will have investment strategies designed to "Contribute to Solutions" e.g. the provision of homelessness accommodation or new affordable housing for those in social need.

**Chart 8: The Spectrum of Capital**

Choices and strategies for investors on the 'spectrum of capital'.

| APPROACH   | TRADITIONAL   | RESPONSIBLE   | SUSTAINABLE  | IMPACT DRIVEN   |   |  | PHILANTHROPY  |   |
|--|---|---|--|---|---|--|---|---|
|  |   |   |  | 'Finance first'   | ↔   | 'Impact first'   |   |   |
| FINANCIAL GOALS  | Target competitive risk-adjusted financial returns        |   |  | Uncharted returns   |   | Below-market returns   | Partial capital preservation  | Complete capital loss   |
| IMPACT GOALS   | Avoid harm and mitigate ESG risks                         |   |  |   |   |  |   |   |
|  | Benefit all stakeholders                                  |   |  |   |   |  |   |   |
|  |   |   |  | Contribute to solutions   |   |  |   |   |
| DESCRIPTION  | Limited or no regard for ESG practices or societal impact | Mitigate risky ESG practices, often in order to protect value | Adopt progressive ESG practices that may / are expected to enhance value | Address societal challenges that generate competitive financial returns for investors | Address societal challenges where returns are unknown, or investors risks largely unknown | Address societal challenges that require a below-market financial return for investors | Address societal challenges that cannot generate a financial return for investors | Address societal challenges with donations or with the expectation of full capital loss |
| <span style="border: 1px solid black; display: inline-block; width: 80%; margin: 0 auto; padding: 2px 10px;">The 'impact economy'</span> |   |   |  |   |   |  |   |   |

Source: Bridges Impact+ and the Impact Management Project

**The social housing sector has a growing need for additional investment. This ESG reporting approach will help the sector access the increasing global demand for sustainable and ESG integrated investments.**

## ESG AND IMPACT INVESTMENT PRESENT AN OPPORTUNITY FOR THE SOCIAL HOUSING SECTOR

**The substantial rise of both ESG and impact investing provides an opportunity for housing associations to reach a far broader universe of investors. Social housing represents a particularly attractive proposition for both ESG and impact investors since it is an area that attracts significant amounts of market capital whilst clearly delivering something socially beneficial**

In the face of diminished capital grant funding for the social housing sector, there is an immediate opportunity for housing associations to tap into this growing interest to attract new sources of capital. Public money evidently has a core role to play in underpinning the sector, but for housing associations to help tackle the country's shortage of truly affordable housing, new capital providers must be incentivised to enter the sector.

The social housing sector has been described as appearing to be 'a natural home' for investors seeking to make an impactful investment alongside a financial return, with measurable outputs and proven return expectations. As described by the editor of Social Housing, "There is no shortage of outputs in the social housing sector when it comes to social value – irrespective of debate around how they are reported. We have a regulated, not-for-profit, asset-backed sector with a core social purpose to deliver homes and services to communities, including to some of the most vulnerable people in our society".<sup>29</sup> Yet being able to communicate their ESG credentials effectively is crucial if housing associations are to succeed in doing so. ESG data is an increasingly important means for allowing investors to identify organisations that are well-positioned for the future and that have the potential to contribute to positive impact. This project is focused on enabling housing associations to communicate effectively to investors the ESG factors that are material to their business model.

## DIFFERENTIATING BETWEEN ESG AND IMPACT REPORTING

**The approach presented in this paper is focused on building a sector-standard way of reporting on ESG factors. However, it also lays the groundwork for impact reporting.**

Both ESG and impact reporting reference an organisation's impacts on social and environmental issues. However, ESG reporting typically focuses on disclosures that are within an organisation's control and therefore easily captured from 'inside' the reporting organisation (internal focus). Whereas impact reporting strives to directly measure changes to planet or people resulting from an organisation's activities. This necessarily has an 'external' focus with outcomes often more accurately captured from 'outside' the reporting organisation (external focus).

Corporate ESG reporting has historically been focused on avoiding harm, mitigating risks and managing reputations. Impact reporting has historically been focused on how organisations can make a positive contribution to the societal and environmental challenges the world faces.

Yet, ESG reporting is evolving to include positive contributions, whilst impact reports are evolving to include negative impacts and the associated risks. Thus, the lines between both forms of reporting are becoming increasingly blurred, and we have designed this sector-standard for social housing with this progression in mind.

In 2019, the UK government supported the establishment of the Impact Investing Institute. The Institute brought together the work of the Implementation Taskforce for Growing a Culture of Social Impact Investing in the UK, led by Dame Elizabeth Corley and the National Advisory Board on Social Impact Investing led by Sir Harvey McGrath. The mission of the new Institute is to accelerate the growth and improve the effectiveness of the impact investing market so that more capital contributes to achieving the SDGs.

The Impact Investing Institute has been a member of the core working group. Big Society Capital and The Good Economy will partner to further develop an impact reporting approach for social housing. This will apply many of the ESG criteria but relate these to positive impact objectives and targets e.g. changes in how much of the housing is genuinely affordable. Such an approach is particularly relevant to new funds which have explicit impact investing strategies. Work on this impact reporting approach is underway and will be further developed in consultation with a core group of partners over the coming months.

29. Social Housing, Could housing associations put the social in ESG?, September 2019. <https://www.socialhousing.co.uk/comment/comment/could-housing-associations-put-the-social-in-esg-63039>

# 3. THE ESG REPORTING APPROACH

## PURPOSE

**The purpose of this project is to create a consistent, comparable and transparent approach to assessing the ESG performance of housing associations. The drive to create a standardised way to report on ESG performance has been led by housing associations themselves.**

Housing associations are increasingly being asked to complete individual ESG questionnaires by banks and institutional investors which are being required to start monitoring the ESG performance of their investees. These questionnaires are typically not specific to housing and therefore do not allow housing associations to demonstrate their ESG credentials in an appropriate way.

To some extent, housing associations have previously felt relatively confident of their fundamental compliance with ESG type credentials and this may have reduced the imperative for the sector to develop a more formalised response to growing investor needs around reporting. In comparison, the wider real estate industry has seen various initiatives and frameworks brought forward in this area in recent years to the extent where its ESG methodologies and data frameworks are more advanced than in the social housing sector.

This project aims to bring the housing association sector together to develop a consistent, sector wide approach to ESG reporting which is acceptable to both the housing associations producing the information and the lenders and investors using it. To this end, housing associations have a considerable advantage given the collaborative approach they typically take with one another on sector wide issues.

The approach is in line with the Impact Investing Institute's recommendation that market participants should work together to "develop common approaches, create system wide tools, and sector/theme specific metrics and KPIs, and share clear, accessible data sets". The social housing sector is the first sector to develop a sector-standard approach.

## PROCESS

This approach was developed in partnership with housing associations (Peabody, Clarion, Optivo, and Sovereign), investors (Insight and M&G), professional advisors (Centrus, Savills and Trowers & Hamlins) and impact investment specialists (Big Society Capital and the Impact Investing Institute). It involved a number of steps. The process was led by The Good Economy, a specialist impact advisory firm.

**1 Review of existing ESG Questionnaires.** The Good Economy reviewed nine different ESG questionnaires that are being actively used by lenders and investors to the housing associations sector to assess the ESG performance of housing associations. The recurring themes, questions and criteria were identified, compared and contrasted.

**2 Partnering with Ritterwald [a European real estate consultancy] which has developed a Pan-European Label to certify the sustainability of housing companies.** Ritterwald, a German consultancy, in collaboration with the European Federation for Living has developed a Certified Sustainable Housing Label ("the Label") to assess the positive impact of affordable housing providers for the investor market. This is gathering interest across Europe and Clarion was certified in late 2019, utilising it in its recent Sustainability Bond Issue. For these reasons, we partnered with Ritterwald to develop the criteria. Specifically, using their Environmental and Social criteria as a starting point in the development of this approach. A close working relationship has now been established with Ritterwald.

**3 Align with global ESG and impact reporting standards and frameworks.** These ESG criteria are specific to housing associations and relevant to the wider affordable housing market. However, it was important to the working group that they follow best practice identified by the Impact Investing Institute and align with emerging global corporate ESG and impact reporting standards and metrics so that results can be easily mapped and achieve broad acceptance within the lender and investor community.

The criteria have been mapped to the following global approaches and reporting standards:

- Sustainable Development Goals (SDGs) – all themes and criteria have been aligned to specific SDG goals and indicators.
- International Capital Market Association (ICMA) – see box on next page.
- Sustainability Accounting Standards Board (SASB) – criteria are mapped to SASB criteria.
- Global Reporting Initiative (GRI) – criteria are mapped to GRI criteria.
- Task-Force on Climate Related Financial Disclosures (TCFD) – relevant TCFD reporting requirements have been considered within the environmental criteria

The full mapping can be found in the accompanying **ESG Criteria Spreadsheet**.

## The ICMA Bond Principles

This ESG reporting approach will help housing associations align with the International Capital Markets Association's (ICMA) Green, Social and Sustainable Bond Principles. These principles are voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green, Social and Sustainable bond markets. Whilst the purpose of the ICMA bond principles is specific to the debt capital markets, their fundamental purpose is analogous to that of this ESG framework – to promote the availability of information necessary to evaluate social and environmental impact and to move the market towards standardised disclosures.

The ICMA bond principles set out four core components in their definition for what constitutes a Green, Social or Sustainable bond:

- Use of proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting.

Two of these are particularly relevant to this ESG framework. These are: 1) a process for project evaluation and selection, and 2) reporting on the use of proceeds and expected impact. The criteria set out in this ESG framework aids the process of evaluation and selection by providing an industry-specific set of criteria whereby housing providers can be evaluated according to the ESG factors that are fundamental to their business. In terms of its alignment with the ICMA's reporting component, this ESG framework encourages transparency and disclosure of core environmental and social indicators.

## 4 Workshops with subject matter experts

The definition of the specific criteria were refined during a series of workshops with subject matter experts from within the working group organisations, including Heads of Sustainability, Community Investment and Legal and Governance from the housing associations and credit analysts and ESG analysts from investors. The process ensured the criteria remained both useful for investors, and relevant and measurable for housing providers.

## PRINCIPLES

The criteria were developed based on three underlying principles.

**1 Where possible, use criteria that are already being measured and recorded and could be published in Annual Reports.** Housing associations already capture and report on significant volumes of data. We wanted to use metrics that are publicly reported where possible and aligned with internationally recognised global reporting standards. This offers practicality for those producing the data and gives assurance and confidence to those receiving and monitoring it.

**2 The criteria should work for small and large housing providers.** The criteria should be useful for any housing association. We expect medium and large housing providers to be early adopters, however smaller housing providers should also be able to use the approach to report their ESG performance in a standardised way.

**3 Focus on the questions that are important.** We only included criteria if they added necessary information and were seen as relevant, meaningful and capable of being answered. There is a constant tension between asking for more information and making the process too complex. Where investors would like to understand certain aspects in more detail, they may ask follow-up questions and where these are consistently focused on particular areas then over time the criteria could be developed in order to reflect this.

### HACT Social Value Measurement Approach

Many housing associations use the Social Value Bank, and the HACT Value methodology to report on their Social Value. This process monetises specific outputs and outcomes delivered by a housing association. It goes into a high level of specific detail, so it complements our broad ESG approach. Our ESG reporting approach specifies organisation-wide criteria to report against, across a broad range of ESG themes. Monetisation data from HACT Value provide good inputs to some of our specific Social criteria.

Our criteria have been designed to enable all housing associations to use them, without requiring lots of additional data collection and analysis. For many criteria we have not specified the exact indicator to use. Instead we require housing associations to report against the metrics they already use. For some this will be indicators and values they have developed using HACT’s Social Value Approach.

### HOW THE CRITERIA ARE STRUCTURED

Within the three high level areas: “Environment, Social and Governance” we identify a set of themes aligned with the UN Sustainable Development Goals (SDGs). Environmental themes relate to management of housing stock whereas social criteria relate to residents and the local community.

Chart 9: Structured approach behind the criteria

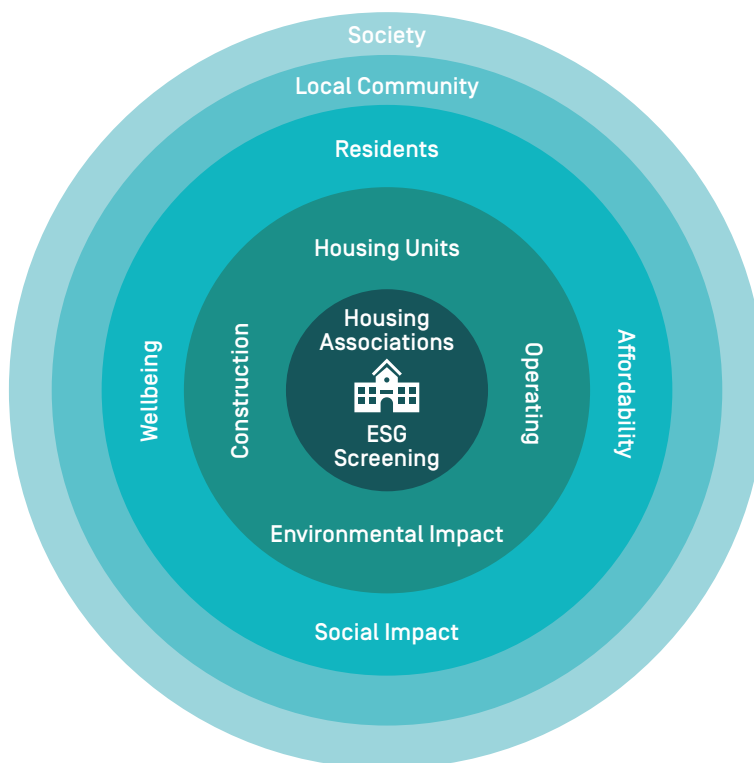




Chart 10: Summary of the criteria themes

| ESG AREA      | THEME # | THEME NAME                | DESCRIPTION  |
|---------------|---------|---------------------------|--|
| SOCIAL        | T1      | Affordability             | <p>This theme seeks to assess the extent to which the housing provider provides homes that are genuinely affordable to those on low-incomes.</p> <p>The theme is made up of four criteria, including the tenure mix of new and existing properties and security of tenure.</p>   |
|               | T2      | Building Safety           | <p>This theme seeks to assess how effective the housing provider is at meeting its legal responsibilities to protect residents and keep buildings safe.</p> <p>The theme is made up of two criteria, disclosing gas safety checks and fire risk assessments.</p>   |
|               | T3      | Resident Voice            | <p>This theme seeks to assess how effective the housing provider is at listening to and empowering residents.</p> <p>The theme is made up of three themes that cover board scrutiny, complaint handling and resident satisfaction.</p>   |
|               | T4      | Resident Support          | <p>This theme seeks to assess the effectiveness of the initiatives that the housing provider runs to support individual residents.</p> <p>The theme is made up of two criteria that cover: What support is provided? and How successful is it?</p>   |
|               | T5      | Placemaking               | <p>This theme seeks to highlight the wider set of activities that housing providers undertake to create well-designed homes and places that meet local needs and provide great places for people to live and enjoy.</p> <p>The theme is made up of one criterion, a space for the housing provider to give examples of their placemaking or placeshaping work.</p>   |
|               | T6      | Staff wellbeing           | <p>This theme seeks to assess the extent to which the housing provider is a good employer to its internal staff.</p> <p>The theme is made up of two criteria, the CEO-worker pay ratio and a disclosure on being a Living Wage employer.</p>   |
| ENVIRONMENTAL | T7      | Climate Change            | <p>This theme seeks to assess how the activities of the housing provider are impacting on climate change. This theme considers current practice, as well as the changes being made to improve performance in the future.</p> <p>The theme is made up of eight criteria, including the distribution of EPC ratings and heating sources, emissions data, capacity for renewable energy production, and environmental strategy.</p> |
|               | T8      | Ecology                   | <p>This theme seeks to assess how the housing provider is protecting the local environment and ecology. The theme considers both policies and the results of the housing provider.</p> <p>The theme is made up of six criteria that review different elements that impact the local ecology: sourcing materials, waste management, managing pollutants, water management and biodiversity.</p>                                   |
| GOVERNANCE    | T9      | Board & Trustees          | <p>This theme seeks to assess the quality, suitability and performance of the board of trustees.</p> <p>The theme is made up of twelve criteria including demographics of the board, ownership, experience and independence of the board.</p>  |
|               | T10     | Systems & Risk management | <p>This theme seeks to assess how well the housing provider manages risks and ensure it meets its legal obligations as a provider of affordable housing.</p> <p>The theme is made up of five criteria including RSH grading, reporting against the decent homes standard and disclosing any adverse findings.</p>  |



## TYPE OF CRITERIA

The 45 criteria are provided in Annex 1. These criteria are divided into “Core”, “Secondary” and “Organisational Specific”. These signal the importance of the criteria for the reader, and therefore the level of effort that the housing provider should undergo to complete it.

It is expected that some of the Secondary criteria might be too challenging or time consuming for some housing providers to complete initially. These will become aspirational criteria that will be completed in later years. However, all Core criteria are required to be reported against.

Organisational Specific criteria are used when there are no standardised indicators, but it was thought to be an important issue. In this case, the housing provider will be expected to report against the indicators that they currently use internally. Frequently there are suggestions made in the “Notes” column as a suggestion for what these indicators might be.

## HOW TO USE THE CRITERIA

It is expected that housing providers will report on their ESG performance on an annual basis. It therefore seems likely that this will be created as a section or annex in the financial annual report and published on the investor section of websites where these exist. However, the working group is interested to discuss ESG information disclosure.

It is also expected that investors will start to use these criteria in their own ESG assessments of investees. Therefore, in time, instead of issuing a new bespoke survey, investors will be able to view the most recent ESG report.

Currently, members of the working group have committed to testing out the criteria from both the investor (Insight and M&G) and housing association side (Peabody, Clarion, Optivo and Sovereign).

## IMPLEMENTING THE ESG APPROACH

**The working group responsible for commissioning and inputting to the White Paper is conscious that if this process is to succeed in its primary objectives of creating a broad consensus and consistent ESG reporting approach across the social housing sector, then the baton needs to be passed to some form of properly representative industry body.**

This body might best be constituted for the specific purpose of consulting with and issuing guidance to stakeholders on an on-going basis, as well as keeping abreast of developments and policy changes in the evolving spheres of ESG and impact reporting, more generally known as non-financial reporting.

Therefore, it is recommended that a multidisciplinary working group is established, to lead consultation with a wide group of stakeholders. This may include (but not be limited to) representation from;

- Housing associations of varying sizes.
- Institutional investors, possibly via a representative body such as The Investment Association.
- Bank lenders to housing associations, possibly via a representative body such as UK Finance.
- Other relevant stakeholders and experts including advisors from the property, legal, accounting and financing arenas.
- Additional bodies with broader statutory responsibility, such as the Regulator of Social Housing and the Financial Reporting Council (FRC) which might be involved either as participants or observers.
- Impact Investing Institute.

The sector has a strong track record of providing collaborative direction to its members and promoting fair and comparable reporting. In accounting and financial reporting, housing associations are obliged to produce financial statements which comply with the Housing Statement of Recommended Practice (SORP). The Housing SORP is developed and maintained by a SORP-Making Body (SMB), officially sanctioned by the FRC, with secretariat services provided by the National Housing Federation.

ESG measures form an important area of non-financial reporting where a move towards better reporting and independent auditing and verification of non-financial information is likely in the future. Formulating a reporting standard and criteria could be led in a similar way to the SORP, by an endorsed body, supported in practical terms by an official industry body like the National Housing Federation. Feedback on the broad approach outlined above as well as the detailed make up and constitutional status of such a body is sought from stakeholders during the consultation period.

This is an emerging area, well served by simplicity at the outset and a regular review and updating of guidance in response to an evolving policy and investment environment moving forward, to ensure that the housing sector as a whole is able to develop and improve its ESG and impact reporting on an on-going basis.

# ANNEX 1: ESG CRITERIA

| THEME #       | #  | TYPE OF CRITERIA        | CRITERIA  | MEASUREMENT UNIT   | NOTES  | RATIONALE  |
|---------------|----|-------------------------|---|--|--|--|
| AFFORDABILITY | T1 | Organisational Specific | Housing provider specific "Affordability" indicator   | -  | Suggested measures to record affordability are: Rent compared to Local Housing Allowance, Rent compared to PRS, What % of homes have a nomination agreement? | Providing affordable housing is a core purpose of regulated housing providers. During workshops for the development of the ESG framework, housing providers communicated that standardised measures to demonstrate affordability at a portfolio level can be difficult to produce data for. Therefore, a housing provider specific "Affordability" indicator is included as the most suitable criteria. This allows the Provider to measure the affordability of their portfolio in a way that is most effective for them whilst balancing reporting costs and resources. Available data relates to rent levels. However, the Working Group recognise that affordability has most meaning when the costs of housing are compared to income – Affordable rents are typically defined as costing no more than 35% of a household's net income. |
|               | T1 | Core                    | Share, and number, of existing homes (homes completed before the start of the previous financial year) allocated to: General needs (social rent), intermediate rent, Affordable rent, Supported Housing, Housing for older people, Low-cost home ownership, Care homes, Private Rental Sector | % properties, Number of properties                                 | Both % and number of homes should be provided to get an understanding of scale and composition of tenure type  | This breakdown by tenure type demonstrates the extent to which a Housing Provider provides accommodation which will target those with a higher level of social need for affordable housing (i.e. social rent and supported housing = higher social need, whereas low-cost home ownership and private rental sector = lower social need). Housing Providers are already required to disclose this information to the Regulator for Social Housing (RSH) as part of the annual Statistical Data Return (SDR). This criterion therefore does not add to the reporting burden whilst offering insight into both an organisation's scale and a breakdown of its stock by tenure type. It is also included within the Ritterwald criteria [1.1].   |
|               | T1 | Core                    | Share, and number, of new homes (homes that were completed in the previous financial year), allocated to: General needs (social rent), intermediate rent, Affordable rent, Supported Housing, Housing for older people, Low-cost home ownership, Care homes, Private Rental Sector            | % properties, Number of properties                                 | Both % and number of homes should be provided to get an understanding of scale and composition of tenure type  | By understanding the breakdown of a Housing Provider's homes under construction, we develop an understanding of the organisation's intent and the nature of their growth plans, particularly the extent to which their future stock will target those with a higher level of social need. This criterion is included within the Ritterwald criteria [1.1, 4.1, 4.2].   |
|               | T1 | Secondary               | How secure are residents' tenancies?  | The proportion of all 'General Needs' tenancies that are long term | -  | Security of tenure is a key differentiator between social housing and the private sector and evidence suggests this security makes a huge difference to people's lives and ability to find work, access informal and formal local support networks and services and build family lives. Good practice in the housing sector is now to offer long term tenancies to general needs residents where possible.   |



| THEME #          | #  | TYPE OF CRITERIA        | CRITERIA   | MEASUREMENT UNIT     | NOTES  | RATIONALE  |
|------------------|----|-------------------------|--|----------------------|--|--|
| BUILDING SAFETY  | T2 | Secondary               | What % of homes with a gas appliance have an in-date, accredited gas safety check?                                       | % of homes           | -  | This criterion is included to ensure that the Housing Providers' portfolio of homes are fitted with adequate and safe fittings and appliances, in the interest of resident safety.   |
|                  | T2 | Secondary               | What % of homes have an outstanding Fire Risk Assessment?  | % of homes           | Housing providers should also state their standard inspection cycle e.g. Fire Risk Assessments are completed on an annual basis  | This criterion is included to ensure that the Housing Providers' portfolio of homes are regularly assessed for their level of fire risk, in the interests of resident safety. This is a particularly topical issue given the events of Grenfell Tower in 2017, with an increased onus on Housing Providers to take a more proactive role in dealing with issues relating to resident safety.   |
| RESIDENT VOICE   | T3 | Core                    | What arrangements are in place to enable the residents to hold management to account for provision of services?          | Qualitative response | Possible approaches to receiving scrutiny include:<br>- Resident members on the board<br>- Resident Scrutiny Panels<br>- Resident boards/forums  | Resident scrutiny of the board is a key criterion providing insight into the influence afforded to residents within the housing provider's decision making process. Residents are the ultimate beneficiaries of the Housing Provider's services and therefore they should have sufficient means to scrutinise the decisions of the board and communicate feedback on key tenancy-related issues. This is included within the Rittenwald criteria (3.1, 3.2).   |
|                  | T3 | Organisational Specific | Housing Provider specific "Resident Satisfaction" Indicator  | Qualitative response | How does the Housing Provider measure "Resident Voice"? What are their targets? Are they on track to achieve their targets?  | Resident satisfaction provides a direct indication of resident perception of the standard of service that the Housing Provider is providing. The organisation's performance in terms of residents satisfaction should be measured against stated targets so that an assessment of their success in this area can be tracked over time. Housing Providers generally report their performance in terms of residents satisfaction that is specific to their organisation (i.e. there is no industry-wide standardised metric) and so this criterion should be reported in a way which best suits the organisation.  |
|                  | T3 | Secondary               | Housing Provider specific "Complaint handling" Indicator   | Qualitative response | Possible indicators might be:<br>- Number of complaints upheld by the Ombudsman<br>- Rate of escalation between complaint levels (e.g. level 1->2)<br>- Average response time                        | The manner and timeliness with which Housing Providers deal with resident complaints is an important indicator of the standard of service that they provide. Housing Providers generally report their performance in terms of complaints handling in a way that is specific to their organisation (i.e. there is no industry-wide standardised metric) and so this criteria should be reported in a manner which best suits the organisation. The Housing Ombudsman advises Housing Providers to "be fair, put things right, learn from outcomes." The working group felt that reporting on complaints that have been escalated to the Ombudsman could be a standard reporting criteria. |
| RESIDENT SUPPORT | T4 | Organisational Specific | Do you have a Community Investment Strategy? How do you support your Residents?  | Qualitative response | Possible answers might include:<br>- Employment support activities<br>- Community events<br>- Signposting residents to other services e.g. financial advice<br>- Considerations of your supply chain | This criteria is included to demonstrate the Housing Providers' commitment to supporting residents above and beyond the statutory housing-related responsibilities. It also evidences the potential of the organisation for cross-sector partnership working, as Housing Providers can act as a key partner signposting residents to other organisations and services (i.e. employment, education, mental health services).  |
|                  | T4 | Secondary               | How do you measure success of your resident support? What outputs and outcomes do you measure and what are your targets? | Qualitative response | Possible answers might include:<br>- Outputs and outcomes targets<br>- Social Value calculations<br>- Impact reporting   | Measuring the success of an organisation's community investment is a key mechanism in ensuring that the organisation is aware of its progress in this area and is transparent in terms of its performance.   |



| THEME #        | #  | TYPE OF CRITERIA        | CRITERIA  | MEASUREMENT UNIT   | NOTES   | RATIONALE   |
|----------------|----|-------------------------|---|--|---|---|
| PLACEMAKING    | T5 | Organisational Specific | Provide examples of case studies of where you have been engaged in placemaking or placeshaping activities       | Qualitative response   | Description of placemaking or placeshaping objectives, activities and key results   | Investment in placemaking or placeshaping activities provide tangible demonstrations of a Housing Provider's commitment to not just providing housing, but to creating places that are designed to promote people's health, happiness and wellbeing. Such activities demonstrate a willingness to go beyond the organisation's statutory responsibilities and evidence a resident-centred approach.   |
|                | T6 | Core                    | Is your organisation an accredited "Living Wage" Employer?  | Yes/No   | Accredited by the Living Wage Foundation <a href="http://www.livingwage.org.uk">www.livingwage.org.uk</a> (or equivalent)   | Accredited "Living Wage" employer status provides an insight into a Housing Provider's reputation as a fair pay employer. The "Living Wage" is based on independent calculations of the real cost of living in the UK. Accreditation demonstrates that the Housing Provider is committed to ensuring its employees and contractors earn a wage that meets the cost of living, not just the government minimum.  |
|                | T6 | Core                    | What is the CEO-worker pay ratio?   | Number   | Calculated as the ratio between the CEO and the median pay of workers. This criteria will use the Department of BEIS Methodology: <a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755002/The_Companies_Miscellaneous_Reporting_Regulations_2018_QA_-_Publication_Version_2_1_1_.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755002/The_Companies_Miscellaneous_Reporting_Regulations_2018_QA_-_Publication_Version_2_1_1_.pdf</a> | The CEO-worker pay ratio demonstrates a Housing Provider's pay dispersion between the CEO and the organisation's median earner. This is a standard measure which provides an insight into an organisation's pay equity. The matter of executive pay is a topical issue in the UK, with new regulations coming into force from 1st Jan 2020 making it a statutory requirement for UK listed companies with more than 250 employees to disclose their CEO-worker pay ratio. The working group believe Housing Providers will perform well on this measure compared to corporates. |
| CLIMATE CHANGE | T7 | Core                    | Distribution of EPC ratings of existing homes (those completed before the start of the previous financial year) | % of Homes rated A, % of Homes rated B, % of Homes rated C, % of Homes rated D, % of Homes rated E, or worse | -   | Disclosing the distribution of a Housing Providers' EPC rating across its existing portfolio provides insight into the overall energy efficiency of their current stock. This is a standard measure that is used across the housing and real estate markets. This criterion is included within the Rittenwald criteria (2.3).   |
|                | T7 | Core                    | Distribution of EPC ratings of new homes (those completed in the previous financial year)                       | % of Homes rated A, % of Homes rated B, % of Homes rated C, % of Homes rated D, % of Homes rated E, or worse | -   | The expected distribution of the EPC ratings of a Housing Providers' homes under construction provides an insight into the Provider's growth plans from an environmental perspective. This criterion demonstrates the extent to which a Provider is committed to ensuring its future stock of housing is more energy efficient than older units. This criterion is included within the Rittenwald criteria (2.3, 3.1).  |
|                | T7 | Core                    | Distribution of homes by heating source for all new homes (those completed in the previous year)                | % Gas boilers, % Gas community heating, % District heating, % Electric, % Heat pumps, % Biomass, % Other     | -   | For most homes, heating is the single biggest use of energy. Also it is expected that there will be no new gas boilers in new builds from 2025. Therefore reporting on distribution of heat source provides good information about future emissions.  |

| THEME #        | #         | TYPE OF CRITERIA   | CRITERIA  | MEASUREMENT UNIT   | NOTES   | RATIONALE  |
|----------------|-----------|--|---|--|---|--|
| CLIMATE CHANGE | T7        | Secondary  | Scope 1 and Scope 2 green house gas emissions   | kg CO <sub>2</sub> equivalent  | -   | Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. This is a standard and easily comparable reporting requirement which is asked for by many investors. It is a standardised metric which provides an insight into the environmental impact of an organisation's activities.   |
|                | T7        | Secondary  | Total capacity of renewable energy production   | - Total kW<br>- kW per home in the portfolio   | The measure is the calculation of total potential production of all installed energy sources (PV cells etc).<br>NB This does not require actual energy production values  | This criterion provides insight into the Housing Providers' commitment to investing in renewable energy systems. Although energy product (kWh) is a better measure, this was thought to be too difficult to capture as many PV cells are on resident properties and Housing Providers are not informed of their output. Total Capacity therefore also acts as an effective proxy for the extent to which a Housing Provider is advancing attempts to decarbonise its portfolio. It is included in the Ritterwald criteria [2.1.1, 2.1.2, 2.1.3]. |
|                | T7        | Secondary  | The Housing Provider has formulated an environmental strategy with objectives aimed at meeting government targets within prescribed timeframes    | 1. Yes, concrete objectives and targets are formulated<br>2. Yes, general reduction as objective, but no concrete targets<br>3. No, no green objectives formulated | -   | The formulation of an environmental strategy is a signifier of a Housing Providers' commitment to improving the environmental impact of its portfolio. This criterion is included in the Ritterwald criteria [0.1].  |
| T7             | Secondary | The Housing Provider reports on sustainability on an annual basis  | 1. Yes, already for more than 3 years<br>2. Yes, first time within the last 3 years<br>3. No, but already in the planning or implementation phase | This could be in a specific Sustainability/Environmental Impact Report, or it could be a section of the Annual Report  | Reporting on sustainability provides an indication as to the Housing Providers' commitment to transparency and improving its environmental impact. This criterion is included in the Ritterwald criteria [0.2].   |  |
| T7             | Secondary | Does the Housing Provider give residents information about correct ventilation, heating, recycling etc. Please describe how this is done | Qualitative   | -  | Providing information to residents on sustainability matters such as correct ventilation, heating and recycling provides demonstration that a Housing Provider is committed to improving the sustainability of its portfolio. How residents manage their homes ultimately has a large influence on the environmental impact that a home creates and so communicating to residents how to do so in a sustainable manner is an important means whereby Providers can manage the overall impact of their portfolio. This criterion is included within the Ritterwald criteria [4.1]. |  |

| THEME # | #  | TYPE OF CRITERIA        | CRITERIA  | MEASUREMENT UNIT   | NOTES   | RATIONALE  |
|---------|----|-------------------------|---|--|---|--|
| ECOLOGY | T8 | Organisational Specific | Housing Provider specific "Ecology & Environment" indicator   | Qualitative  | How does the Housing Provider measure effectiveness at "Ecology and Environment"? What are their targets? Are they on track to achieve their targets?<br><br>This should relate to water, land and resource usage, but not to Green House Gas Emissions | This criterion is included to provide an indication of whether a Housing Provider has an ecology and environment strategy. Setting targets and being aware of overall ecology and environment objectives provides demonstration of a commitment to managing the organisation's environmental impact.   |
|         | T8 | Secondary               | The Housing Provider has a strategy to use or increase the use of responsibly sourced materials for building works. If so, how do you measure success?                | 1. Yes<br>2. No, but planning to develop a strategy<br>3. No, no plans to develop a strategy | -   | Having a strategy in place to increase the use of responsibly sourced materials in building works provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a responsible sourcing strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out. This criterion is included within the Rittenwald criteria (3.2). |
|         | T8 | Secondary               | The Housing Provider has a strategy for waste management incorporating building materials. If so, how do you measure success?   | 1. Yes<br>2. No, but planning to develop a strategy<br>3. No, no plans to develop a strategy | -   | Having a strategy in place for waste management incorporating building materials provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a waste management strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.   |
|         | T8 | Secondary               | The Housing Provider has a strategy to actively manage and reduce pollutants (e.g. mould, water pipes containing lead). If so, how do you measure success?            | 1. Yes<br>2. No, but planning to develop a strategy<br>3. No, no plans to develop a strategy | -   | Having a strategy in place to manage and reduce pollutants provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a pollutants reduction strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out. This criterion is included within the Rittenwald criteria (3.4).  |
|         | T8 | Secondary               | The Housing Provider has a strategy for good water management. If so, how do you measure success?   | 1. Yes<br>2. No, but planning to develop a strategy<br>3. No, no plans to develop a strategy | -   | Having a strategy in place for good water management provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a water management strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.   |
|         | T8 | Secondary               | The Housing Provider has a strategy to increase the amount of 'green space' and biodiversity on or near homes e.g. gardens, parks. If so, how do you measure success? | 1. Yes<br>2. No, but planning to develop a strategy<br>3. No, no plans to develop a strategy | -   | Having a strategy in place to increase the amount of green space or biodiversity on or near homes demonstrates both a Housing Providers' commitment to minimising environmental impact as well as its investment in improving quality of space for residents. Tracking and measuring the success of a biodiversity strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.   |

| THEME #            | #  | TYPE OF CRITERIA | CRITERIA  | MEASUREMENT UNIT   | NOTES  | RATIONALE   |
|--------------------|----|------------------|---|--|--|---|
| BOARD AND TRUSTEES | T9 | C29              | Core<br>What are the demographics of the board?<br>Add commentary if useful   | % gender of board, Average age of board, Average tenure of board, % BAME board members | -  | Board diversity evidences that a Housing Provider is not discriminatory in its selection of members to make up the organisation's highest governance body. This is a standard question asked by many investors.   |
|                    | T9 | C30              | Core<br>Is the housing provider a registered charity?<br>If not, who is the largest shareholder, what is their % of economic ownership and what % of voting rights do they control? | Name, %, %   | -  | This criterion provides insight into the ownership and control of for-profit Housing Provider. It is a standard question asked by many investors of for-profit companies.   |
|                    | T9 | C31              | Secondary<br>What % of the board AND management team have turned over in the last two years?<br>Add commentary if useful  | %  | -  | Board and management turnover provides an indication of the level of stability and continuity that has existed amongst those who are responsible for governing and running the Housing Provider.  |
|                    | T9 | C32              | Secondary<br>Is there a maximum tenure for a board member? If so, what is it?   | Yes/No, Length of tenure   | -  | Term limits for board members are generally agreed to serve the purpose of ensuring that boards do not end up with static membership, which can potentially discourage innovative thinking and the Board losing touch with what the organisation requires. This criterion provides insight into whether the Housing Provider has an appropriate policy in place to encourage systematic rotation of board members.  |
|                    | T9 | C33              | Secondary<br>What % of the board are non-executive directors?   | Number   | -  | Non-executive directors play an important role in an organisation in bringing an impartial view to governance and management decisions. Since a non-executive is not a member of the management team, their view is generally agreed to add value and serve an important purpose since it is unaffected by the potential conflict of having to manage day-to-day operations. This criterion evidences the existence and representation of this more detached and impartial viewpoint within the Housing Provider's highest governance body. This is a standard question which is asked for by many investors. |
|                    | T9 | C34              | Secondary<br>Number of board members on the Audit Committee with recent and relevant financial experience   | Number + description of experience   | An executive or former executive should NOT sit on the audit committee | The Audit Committee should contain individual(s) with recent and relevant financial experience since the presence of such financial knowledge and experience should ensure that the organisation's audit process is fully compliant with the appropriate laws and regulations.  |
|                    | T9 | C35              | Secondary<br>Are there any current executives on the Remuneration Committee?  | Yes/No   | A current executive should NOT sit on the remuneration committee       | A current executive sitting on the Remuneration Committee would be a significant conflict of interest and suggest wider issues of poor governance.  |

| THEME #                     | #   | TYPE OF CRITERIA | CRITERIA  | MEASUREMENT UNIT  | NOTES                 | RATIONALE |   |
|-----------------------------|-----|------------------|-----------|---|-----------------------|-----------|---|
| BOARD AND TRUSTEES          | T9  | C36              | Secondary | Has a succession plan been provided to the board in the last 12 months?   | Yes/No                | -         | The recent presentation of a succession plan to the board indicates that an organisation has taken appropriate steps to prepare for future changes in the makeup of the organisation's senior management team. This evidences clear planning and preparedness in the Housing Provider's governance.   |
|                             | T9  | C37              | Secondary | For how many years has your current external auditor been responsible for auditing your accounts?   | Number of whole years | -         | Where the same auditor has been used for many years, there is a concern that over time there will be a conflict of interests and therefore a lack of scrutiny. This is a standard question which is asked by many investors.  |
|                             | T9  | C38              | Secondary | When was the last independently-run, board-effectiveness review?  | Date                  | -         | It is best practice to review board-effectiveness every three years. This is a recommendation in The UK Corporate Governance Code – July 2018..   |
|                             | T9  | C39              | Secondary | Are the roles of the Chair of the Board and CEO held by two different people?   | Yes/No                | -         | The role of the CEO is to act as the primary manager of an organisation, whilst the role of the Chair is to head up the board, which oversees the organisation's management. It is generally agreed that separating these roles aids accountability and corporate responsibility since management authority is distinguished from board authority. This allows both Chairperson and CEO to pursue respective duties without concern that one set of interests may negatively influence the other. This is a standard question which is asked by many investors. |
|                             | T9  | C40              | Secondary | How do you handle conflicts of interest at the board?   | Qualitative           | -         | As Housing Providers grow, the likelihood for a conflict of interest increases. Therefore it is vital that they have an appropriate way of handling them when they arise.   |
| SYSTEMS AND RISK MANAGEMENT | T10 | C41              | Core      | Is the organisation registered with the Regulator of Social Housing (RSH)?  | Yes/No                | -         | This is a standard criterion which validates that the Housing Provider is regulated by the appropriate regulatory body. This criterion is included within the Ritterwald criteria [1.0].  |
|                             | T10 | C42              | Core      | What is the most recent viability and governance RSH grading?   | G1/V1 etc             | -         | This is a standard criterion which is asked by many investors which provides information on the Housing Provider's Governance and Financial Viability assessment from the RSH. The resultant G/V grading signifies the Housing Provider's capacity to meet the Regulator's governance requirements and its capacity to mitigate its financial exposures effectively.  |
|                             | T10 | C43              | Secondary | How long does the housing provider manage organisational risk?  | Qualitative           | -         | Good governance is based on good systems and structures. The way a housing provider uses its Risk Management Framework provides a clear view into how they handle and mitigate the impact of organisational risk.   |
|                             | T10 | C44              | Secondary | What % of homes meet the Decent Homes Standard?   | % of homes            | -         | The Decent Homes Standard (DHS) is a government-agreed technical definition on the statutory minimum requirement for a home to be classed as 'decent'. This is a standard national criterion that provides insight into the condition of a Housing Provider's stock.  |
|                             | T10 | C45              | Secondary | Have you been subject to any adverse regulatory findings in the last 12 months (e.g. data protection breaches, bribery, money laundering, HSE breaches or notices)? | Yes/No                | -         | This criterion is included to raise any issues that have adversely affected the Housing Provider in the last year. It serves an important purpose in ensuring that any issues relating to the organisation's governance must be disclosed to investors.   |



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